

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 02 MONTREAL 000451

SIPDIS

SECSTATE FOR WHA/CAN, IIP, INR/IAA

E.O. 12958: N/A

TAGS: [ASEC](#) [OEXC](#) [OIIP](#) [KISL](#) [KPAL](#) [PTER](#) [IS](#)

SUBJECT: GAS PLANT PROJECT CONTROVERSY HIGHLIGHTS
QUEBEC'S NEW ENERGY CHALLENGES

1. SUMMARY: Quebec's energy board is holding hearings on whether provincial energy needs require the construction of an 836 megawatt gas plant, the Suroit, in Beauharnois, located 25 miles from Montreal and the U.S. border. The Board's recommendations, and the report of a provincial legislative commission in October, will have a major impact on Quebec's electricity generating capacity. END SUMMARY.

2. In fall 2001, the Parti Quebecois government of Bernard Landry first announced the \$500 million 836 megawatt combined-cycle natural gas plant, to be built in Beauharnois, a town located 25 miles between Montreal and the U.S. border. The plant, named "le Suroit" (southerly wind in English) was billed as necessary to help Quebec bridge a projected energy gap until larger new hydro-electric projects come on-line between 2008 and 2010.

3. Quebec's new Liberal government had initially hoped that some of its budgetary woes, inherited from the former Parti Quebecois government, could be resolved through increased profit generation by Hydro Quebec (last year HQ contributed \$1.1 billion to provincial coffers). Liberal Finance Minister Yves Seguin had even suggested that HQ could generate an additional \$600 million in annual income for the province. But, in the face of increasing opposition to the Suroit from environmental and community activists, in February Premier Jean Charest delayed approval of the project and asked that Quebec's independent energy board, the Regie de l'energie, study Quebec's energy needs and make recommendations on how these needs can best be met. The Regie is in the process now of hearing presentations on the Suroit from environmentalists and Hydro-Quebec officials. The Regie is scheduled to present its report on June 30.

4. Hydro Quebec itself is adamant that the Suroit project is necessary, making the case that provincial energy demand alone requires the plant's construction. According to HQ, provincial demand increased to 165 terawatts (Twh) in 2003, three years sooner than the utility had projected. But critics of the project charge that the plant is only needed in order to generate more profits from exports to the U.S. market.

5. To convince the Regie and the Quebec public of the precariousness of energy supply in the province, Hydro has taken the unusual step of releasing data on the water levels behind its dams, information that the company has kept secret for the past six years because of market competition concerns. A sharp drop in precipitation combined with greater provincial and export sales accounted for the lowest water levels since 1991, HQ president Andre Caille revealed on February 20 in a report presented to the Regie. The report detailed that on January 1, 2004, Hydro Quebec held electricity reserves of 75.1 Twh down from 96.2 Twh a year before, according to HQ figures. Compared to 2000, the dams have 40 Twh less potential. The lack of rain accounted for a loss of 23 Twh in 2003 alone. On any given day, Hydro-Quebec's goal has been to have 60 percent of its yearly projected demand in reserve. However, in 2002, those reserves averaged 67 percent of projected demand; in 2004, reserve averages fell to 43.7 percent, the lowest percentage since 1991, according to the HQ report presented to the Regie.

6. Environmental NGOs believe Hydro is over-dramatizing the supply situation, saying that the province can wait until new hydroelectric projects, considered "cleaner," than gas, come on line in 2008, even if it means importing more energy from the U.S. for a few years. The Quebec media has repeatedly published figures, released by Greenpeace, stating that the Suroit increase Quebec's greenhouse gas emissions by 2.6 percent. Opponents to the Suroit say the need for the plant would vanish if Quebecers simply used electricity more efficiently. The very negative press has raised alarms in Beauharnois, where the mayor and

the population fear the plant's emissions will be harmful to health and quality of life.

17. Some analysts have pointed out that while environmental groups are fighting the Suroit plant ferociously, they have essentially ignored a similar 550 MW natural gas-fired cogeneration power plant in Becancour, 100 miles to the north of the Suroit. Becancour will be developed by the TransCanada Corp., which will supply its entire production to Hydro-Quebec under a 20-year power purchase contract. The \$500 million Becancour plant is scheduled to be in service in late 2006.

18. Hydro Quebec officials claim that the Suroit will use the most efficient and cleanest technology available. As currently conceived, the Suroit would be the first plant in North America to use the 60-hertz version of General Electric's H System, touted as providing an efficiency range of 60 percent. But GE Quebec spokesperson Sylvain Bulota said on March 17 that if delays persist, GE will withdraw the advantageous financial package it offered Hydro. On March 16, GE officials met with Ontario Power Generation (OPG) and Hydro One representatives who are reportedly also very interested in GE's 7HMD technology. Under the present plan for the Suroit, GE would assume all of the projected (\$550 million) construction costs of the Suroit and operate the plant for several years before turning it over to Hydro. If the GE technology is introduced first in Ontario, Hydro-Quebec would not get the advantageous financial package linked to introducing a new technology.

19. According to Hydro Quebec Environment Director Pierre-Luc Desgagns, if the Regie unequivocally reports that the province needs the production from the Suroit, no other study would be needed to go ahead with the project. However, if the Regie's recommendation is tepid or contains caveats, a provincial legislative commission -- with the specific mandate of deciding the Suroit's fate -- would start meeting in July or August. The opposition to the project has already delayed the start of construction by 18 months. The latest optimistic schedule has Suroit coming on line in Spring 2008.

10. National Energy Board figures for January 2004 show Hydro exported 562,205 megawatt hours (export figures include all sales outside the province, including the U.S., Ontario and New Brunswick) while it imported 392,789 MWh for profits of \$28.7 million, a drop from the previous year when the company exported 1,304,666 MWh and imported 562,205 MWh. In percentages, imports increased by 75 percent while exports dropped 57 percent. Hydro disputes the import figures saying they do not take into account sizeable HQ purchases made in Ontario and New Brunswick.

11. The fact that the province of Quebec became a net importer of electricity in 2004 will not prevent Hydro from exporting to the U.S. Northeast markets this summer, says Gilles Favreau, HQ's Director of External Regulatory Affairs. In summer, provincial consumption is at its lowest, making surplus production available for export sales as usual. "However, the next few winters could be hectic. Moreover, with the competition now informed about our low water levels, the electricity we will need to import could be more expensive," says Favreau.

12. COMMENT: It is clear that the Charest government would like to see the Suroit built. But their party's current unpopular standing in public opinion has made the Liberals timid about confronting environmental and community groups, and addressing the expectations of Quebecers that their electricity will be forever provided cheaply, cleanly and abundantly. Further, the notion that the province should limit itself to supplying Quebec demand, regardless of profitable opportunities to export energy, seems to be gaining traction in the public debate, if not in political circles.

ALLEN